

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Rate Adjustment Due to Extraordinary  
or Exceptional Circumstances

Docket No. R2013-11

PRESIDING OFFICER'S INFORMATION REQUEST NO. 9

(Issued November 21, 2013)

To clarify the Postal Service request for rate adjustments due to extraordinary or exceptional circumstances, filed September 26, 2013 (Request), the Postal Service is requested to provide written responses to the following questions. Answers should be provided no later than November 27, 2013. The first question is directed to the Postal Service as an institution. The remaining questions are directed to Thomas Thress.

1. On page 2 of the Statement of Altaf Taufique, he states "However, rather than proposing to recover the entire contribution loss through price changes, the Governors have decided to limit the exigent price increase to 4.3 percent over and above the CPI increase (Docket No. R2013-10)." During the November 19, 2013 hearing in this case, Mr. Taufique was unable to demonstrate personal knowledge of this fact. It is important to have confirmation of the Governors' action in this case. See *Newspaper Ass'n of Am. v. Postal Reg. Comm.*, --- F.3d ---, 2013 WL 6037191, \*3 (D.C. Cir. Nov. 15, 2013). Please confirm that the Governors decided that the Postal Service would file an "across-the-board" 4.3 percent exigent price increase in this case.
2. In the Further Statement you estimate the FY 2012 Market Dominant mail volume losses "due to" the factors relating to the Great Recession to be approximately 53.5 billion pieces of mail. Based on the FY 2012 Annual

Compliance Determination Report, total Market Dominant mail volume was approximately 157 billion pieces. (Source: PRC-ACR2012-LR1). Please also refer to Library Reference USPS-R2010-4R-10, file "Sources-of-ChangeCalcs", tab "InputData" in answering the following set of questions.

- a. Would it be fair to say that you estimate that the 2007-2009 recession caused FY 2012 mail volume to be over 25 percent less than it would have been had there not been a recession? If not, please explain why not.
  - b. Can you confirm that the real (i.e., inflation-adjusted) Gross Domestic Product (GDP) declined by approximately 4 percent during the Great Recession of 2007-2009? If not, please provide the corrected percent of GDP decline based on the numbers you used for your calculations.
  - c. Would it be fair to say that the percent of GDP decline during the period of the Great Recession is at least six times less than the percent of the decline in Market Dominant mail volumes "due to" the Great Recession in FY 2012? If not, please explain why not.
  - d. Would it be fair to say that real (i.e., inflation-adjusted) GDP in FY 2012 was higher than before the recession started? If not, please explain why not.
3. Please refer to your response to POIR No. 3, question 1. There you state:  
"Careful econometric analysis can be extremely useful in identifying when these net diversion trends might have changed and to quantify these trends historically. But to understand why these trends have changed requires moving outside of the econometric models and analyzing the underlying factors that are driving these trends."
  - a. Do the trends you are referencing in this response include "trends" that you classify as recession-related? If not, please explain why not.

- b. If part a is confirmed, please clarify if these recession-related trends are the same ones responsible for 37.5 billion of the 53.5 billion piece FY 2012 impact of the recession?
4. Please refer to Library Reference USPS-R2010-4R-10, file "Sources-of-Change.xlsx", tab "ForecastLvl." It contains certain macro-economic variables that could affect volume changes: population, employment, retail sales and others. You use a Hodrick-Prescott Filter (H-P Filter) to decompose trend and cyclical effects on employment, investment, and retail sales. Please explain why you did not apply the H-P Filter to other variables – such as population or foreign trade.
5. With respect to your measurement of internet diversion and electronic substitutes for mail:
  - a. Would it be fair to say that you justify changing your previous methodology of using Internet usage variables in favor of linear trends for Single-Piece First-Class Mail in this case on the grounds that the traditional measures are slowing down in growth or ceasing to grow whereas diversion of Single-Piece First-Class Mail has not slowed down? If not, please explain why you no longer use Internet usage variables.
  - b. Please explain whether the decline in the prices of e-substitutes has stopped or moved at the same pace as the continued diversion of Single-Piece First-Class Mail.
6. Please explain why you chose private employment rather than total employment in your demand equations. Please explain how you would expect your results to be different if you had used total employment instead of private employment in your demand equations.

7. Your response to POIR No. 4, question 2, states: “[A]dvances in communications using the Internet ... are largely continuations of pre-existing trends in non-mail-based communications. For example, smartphones are a new way to access the Internet, but, measured objectively via ‘Internet’ variables, trends in usage have actually slowed down in recent years.”
- a. Have you considered measuring Internet diversion of mail volume through variables capturing increases in computing power, such as increases in processor speeds, increases in storage space, or the shrinking size of computers?
  - b. Please explain why you would or would not consider measuring Internet diversion of mail volume through increases computing power, such as increases in processor speeds, increases in storage space, or the shrinking size of computers.
  - c. Have you considered measuring Internet diversion through variables capturing differences or increases in broadband Internet speeds? For example, broadband can mean DSL, fiber (such as FTTX, FiOS, T-1/T-3 lines), 4G wireless, or cable, among other things?
  - d. Please explain why you would or would not consider measuring Internet diversion through differences or increases in broadband Internet speeds, such as changes in the use of DSL, fiber, 4G wireless, or cable, among other things.
  - e. Have you explored any alternative sources of data on internet usage that might be appropriate for these new devices, such as average capacity used per second of transmission or per second of reception?
  - f. If you have explored alternative sources, can you please explain those alternative sources that you have explored?
  - g. If you have explored alternative sources, can you please provide a copy of such data series and cite your sources?

8. In your response to POIR No. 2, question 1(c), you state: “[t]he introduction of non-econometric judgment does, however, play an important role in the development of the Postal Service’s volume forecast.”
  - a. Please explain the areas where you applied such non-econometric judgment and explain in more detail why such judgment is important.
  - b. Would it be correct to say that your volume forecasts might have been quite different if you had applied different non-econometric judgments than those you made?
  - c. Please explain how you arrived at your non-econometric judgment in each particular area where you applied such non-econometric judgment.
9. In your response to POIR No. 6, question 5, you state: “Events which are closely related to the Great Recession which have had a negative impact on mail volume over the past five years” includes “substantial efforts by American consumers, businesses, and governments to reduce costs, including the adoption of cheaper technological alternatives to the mail.” Can you please explain why such adoption of cheaper technological alternatives is attributable to the Great Recession? Isn’t the adoption of cheaper technological alternatives something that consumers, businesses, and governments do to reduce costs irrespective of whether there is a recession or Great Recession?
10. In your response to POIR No. 6, question 12(c), you state with respect to Intervention trends: “The problem with such an approach, however, is that trend variables of this nature will also capture the effect of other trends in mail volumes, including, for example, negative trends caused by the Great Recession that are not necessarily the result of changes in the rate of Internet mail diversion (although, the Internet variables themselves were subject to this same issue). These trends are best thought of, then, not as measuring ‘Internet’ diversion or ‘electronic’ diversion but of measuring net mail diversion, the net effect of the various trends affecting mail volumes.”

- a. Would it be possible to econometrically separate the “other trends in mail volumes” as compared to the “negative trends caused by the Great Recession that are not necessarily the result of changes in the rate of Internet mail diversion?” If so, how would one do this sort of econometric separation?
- b. If part a. is not confirmed, please explain what judgment outside the model you use to separate “other trends in mail volumes”.

11. In your response to POIR No. 6, question 25(a), you state that “the baseline assumption underlying the Postal Service’s econometric demand equations and volume forecasting methodology – in general, not only in this case – is that the rate of electronic diversion is expected to remain constant in the absence of evidence to the contrary.” In discussing your rationale for your response, you explain an “S” curve of technological adoption that includes “early adopters,” “take-off,” and a plateau.

- a. For purposes of “S” curve adoption, do you consider e-readers and/or tablet computers to be a new technology or a continuation of the technological advancement of the Internet? Please provide the rationale for your response.
- b. For purposes of “S” curve adoption, do you consider Facebook and other social media communications platforms to constitute a new technology or, rather, a continuation of the technological advancement of the Internet? Please provide the rationale for your response.
- c. For purposes of “S” curve adoption, do you consider smartphones to constitute a new technology or, rather, a continuation of the technological advancement of the Internet? Please provide the rationale for your response.

12. Please refer to your response to POIR No. 3, question 6 where you state that “the provided estimate of the effect of the recession on mail volumes excludes

the positive effect of the economic variables in columns D through G in years when these variables have a combined net positive effect on mail volumes". Please also refer to file "POIR.6.Q14.Rev.11.15 ExigentImpacts.xlsx" (tab "Volume") filed with your response to POIR No. 6, question 14.

- a. Would it be fair to say that you exclude the positive effect of economic variables because such impact is not "due to" the Great Recession? If not, please explain.
- b. Please direct your attention to "First-Class Workshared Letters" on the spreadsheet. Would it be fair to say that negative impact of employment on mail volumes in FY2009-FY2010 (as shown in cells D57:D58) could be partially "due to" other reasons than the Great Recession? If not, please explain.
- c. For First-Class Workshared Letters, the impact of employment on mail volumes is positive during three consecutive years - FY 2011, FY 2012 and FY 2013 (cells D59:D61). However, in FY2014 such impact becomes negative again (cell D62). Could you please provide an explanation for this occurrence?

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Presiding Officer